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PROFITS THAT FARMERS RECEIVE

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Many wrong impressions prevail in regard to the real profits in farming. The consumer in the city believes that the farmer must certainly be growing rich. His impression is due to the fact that he has to pay high prices for the things the farmer sells. He little realizes the amount of capital and labor utilized in the production of these products, neither does he consider carefully the difference between the price the farmer receives for the quart of milk or bushel of potatoes and what the consumer pays.

Within the last few years the Office of Farm Management of the Bureau of Plant Industry, United States Department of Agriculture, has made certain investigations with the view of determining the profits in farming and those factors that seem to control them. These investigations, called Farm Management Surveys, were made in representative farming areas in seven states, the results from which, with those found by the New York State College of Agriculture at Cornell, give an excellent indication of the profits farmers receive for their year's work. Each district surveyed usually comprised a group of three or four townships and included all the farms within the area selected. In this way average conditions were studied, otherwise there would be a tendency on the part of the enumerator to select certain farms and pass by others. All data were collected by trained agricultural students working under the supervision of persons acquainted with the work and who exercised the utmost care to obtain accurate results.

A large number of farmers keep some sort of accounts, but very few keep complete records whereby all data needed in the survey could be obtained. It has been the experience of those who had occasion to take a number of farm records that the farmer is able to give, and does give, a remarkably correct statement in regard to his financial business. As a rule a few important items constitute a large part of the farm receipts or expenses and these items, when not well remembered, can often be checked up by the creamery or dealers' accounts. Where

certain farmers will overestimate, others will underestimate, and the results averaged from 100 farms, or over, are approximately correct. An excellent illustration of the accuracy of results obtained in these surveys is given by Prof. W. J. Spillman in Bureau of Plant Industry Bulletin, No. 259, of the United States Department of Agriculture. He states as follows:

Among the several hundred farms included in the survey were 135 that sold milk to creameries. Each of these farmers was asked to give as accurate an estimate as possible of the amount of money he had received for this milk. After the survey was partially finished it occurred to the investigator that it would be possible to secure a check on the accuracy of these estimates by obtaining the actual figures from the creameries themselves. It was decided also to test in a similar manner the farmers' estimates of the quantity of milk each had sold to the creamery. The estimates as to quantity of milk sold were then obtained from the 79 farms visited after the decision had been reached to make this test. These farmers did not as a rule weigh their own milk and were not accustomed to dealing with weights as they were with sums of money; it was to be expected, therefore, that the estimates of quantity of milk sold would be less accurate than those of money received, and this was the case, as will be shown below. After obtaining the estimates from the farmers, the actual figures, both for weights of milk sold and for money received, were secured from the creameries that had purchased the milk.

Estimated pounds of milk sold (79 farms).....	3,518,816
Actual pounds of milk sold (79 farms).....	3,487,320
Difference.....	31,496
Estimated value of milk sold (135 farms).....	\$106,163.00
Actual value of milk sold (135 farms).....	106,155.50
Difference.....	\$7.50

It is seen that the error in the quantity of milk sold is a little less than 1 per cent of the whole. At the same time the individual estimates of pounds of milk sold were in error by amounts ranging from 40 per cent above to 36 per cent below the correct figures. In the total these errors tended to counterbalance each other, so that the sum of the estimates was quite accurate. In the estimates of money, in terms of which the farmer is accustomed to reckon, the error in the total is less than one-hundredth of 1 per cent. These instances will serve to show something of the measure of accuracy attainable in the results of the farm-management surveys.

The results given in the following tables are only for one year in each region. The seasons and variation in prices will make an immense difference in the farmer's income, particularly in certain dis-

tracts. In the areas studied, it is believed the conditions were fairly normal in all respects. Possibly the results from Iowa are 10 to 15 per cent too low, due to dry weather during the early summer affecting the corn yield. In Chester County, Pa., the incomes are possibly a little above normal, due to unusually high prices of hay and other roughage sold from the farm.

In table I is given the capital invested, receipts, expenses, farm income and labor income, of 2,090 farmers operating their own farms. By farm capital is meant the average of two inventories of land,

TABLE I.—AVERAGE CAPITAL, RECEIPTS, EXPENSES AND INCOME OF 2,090 OWNER FARMERS

State	County	Year	Number of farmers	Average capital	Total receipts	Total expenses	Farm income	Labor income
Indiana.....	{ Clinton	1910	123	17,536	1,876	689	1,187	310
	{ Tipton							
Illinois.....	{ Cass	1910	73	51,091	5,043	1,866	3,177	622
	{ Menard							
Iowa.....	{ Greene	1910	77	23,193	2,308	858	1,450	290
	{ Guthrie							
Michigan.....	Lenawee	1911	300	11,756	1,717	648	1,069	481
Pennsylvania....	Chester	1911	378	10,486	2,448	1,134	1,314	790
Oregon.....	{ Marion	1911	258	14,917	1,722	715	1,007	261
	{ Polk							
New Hampshire.	Hillsboro	1908	266	5,350	1,582	978	604	337
*New York.....	Tompkins	1907	615	5,527	1,146	447	699	423
Average for 2,090 farms		17,482	2,230	917	1,313	439

*Bulletin No. 295, Cornell University.

buildings, live stock, machinery, etc., taken at the beginning and end of the farmer's fiscal year. Normal values (not assessed values) were used in all cases. The farm receipts represent the income from the sales of all products, labor performed by the farmer off the farm, and gain from increased investment. No gain was allowed for increase in value of land unless justified by new buildings, drainage, or other permanent improvements. The farm expenses include all such items as feed, seed, repairs, live stock, labor, taxes and insurance. In case the farmer's sons worked, but were not actually paid, the value of their labor was charged the same as if they had been hired. No

charge is included in the expenses for the owner's labor, as his wages are represented in the labor income.

The difference between the farm receipts and expenses is called the farm income; this represents the combined earnings of the farmer's capital and his own labor. Assuming that the use of capital is worth 5 per cent, and deducting the interest at this rate from the farm income gives the farmer's labor income or the amount he receives for his year's work. This labor income represents the farmer's wages and profits, that is, if the farmer's labor income is \$439, and his labor is worth but \$300, his profits are \$139. In other words, it is the amount left for his own labor and for profit in the business. In addition he had the use of a house to live in, and all those products furnished by the farm towards the family living, the most important of which are milk, eggs, meat, garden vegetables and fruit. In the farm receipts, no credit is given for these items consumed by the farmer and his family.

If the farmer is free of debt, thereby having no interest to pay, he will have in addition to his labor income the interest on his investment to use for living and savings. In regions where the farm capital is large, such as Illinois and other corn belt states, the farmer will be able to live comfortably and yet have a minus labor income, the interest alone being sufficient to give him a good living. In fact many farmers live on the interest of their investment rather than on the real profits of their farms. Smaller farms and cheap land make the average farm investment much less in New York and New England. On such farms the amount (farm income) available to the farmer to pay interest on mortgages and for living expenses is less than \$700.

In table II is given the distribution of labor incomes for the farmers in six states. Out of 1,209 farmers who operated their own farms 5 per cent, or one in twenty, received over \$2,000 as a labor income. Twenty-three and six-tenths per cent failed to make a plus labor income.

Under normal conditions in the northern states we are led to believe that about one-third of the farmers make less than \$100 a year after the interest is counted on their investment. Severe weather conditions, or low prices, often result in heavy losses, and in many years only a few men receive a plus income. This condition is especially liable to occur in regions of specialized agriculture.

TABLE II.—DISTRIBUTION OF LABOR INCOMES OF 1,209 FARMS OPERATED BY OWNERS

States	Number of farmers	Number making minus labor incomes	Number making incomes between \$1 and \$400	Number making incomes over \$2000
Indiana.....	123	32	52	2
Illinois.....	73	27	16	8
Iowa.....	77	30	19	2
Michigan.....	300	54	105	8
Pennsylvania.....	378	42	84	31
Oregon.....	258	100	80	11
Total.....	1,209	285	356	62
Per cent of total		23.6	29.4	5.1

Profits that Tenants Receive

Approximately one farm in every three is rented (37 per cent in 1910, United States census), hence it is important that we know what the tenant farmer is receiving for his work. Unfortunately it is often assumed that all tenants are poor farmers and no credit is given them for the part they play in the agriculture of this country.

From a careful study of over 700 tenant farms, we are forced to conclude that the average tenant is a capable worker, utilizing both land and equipment in an efficient manner. Naturally, not owning the land, we cannot expect him to use the greatest of care in maintaining the fertility. However, it would seem that the fault lies with the farm owner in not caring to give the time and supervision necessary to establish a proper system of rental.

In table III are given the average capital, receipts, expenses and labor income, of 722 tenant farmers found in the same districts as the farmers operating their own land, whose incomes are shown in table I. Tenants working under both share and cash rental systems are included.

Inasmuch as land and buildings constitute from 75 per cent to 90 per cent of the total farm capital, the tenant's investment is necessarily small, there being very few tenants having over \$5,000 in working equipment. Hence the tenant's labor income must be large enough to give him his living, the interest on his investment being a very small item.

TABLE III.—THE AVERAGE CAPITAL, RECEIPTS, EXPENSES AND INCOME OF 722 TENANT FARMERS

State	County	Year	Number of farmers	Average capital	Total receipts	Total expenses	Farm income	Labor income
Indiana.....	{ Clinton	1910	83	1,758	1,335	492	843	755
	{ Tipton							
Illinois.....	{ Cass	1910	71	2,867	2,257	975	1,282	1,139
	{ Menard							
Iowa.....	{ Greene	1910	93	2,667	1,605	755	850	717
	{ Guthrie							
Michigan.....	Lenawee	1911	153	1,562	1,111	450	661	583
Pennsylvania....	Chester	1911	124	2,244	1,929	1,026	903	791
Oregon.....	{ Marion	1911	64	2,047	2,068	940	1,128	1,026
	{ Polk							
*New York.....	Tompkins	1907	134	1,281	814	371	443	379
Average for 722 farms				2,061	1,588	715	873	770

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We have seen how a farm owner can make a minus labor income and still live, but the tenant must make wages or he cannot live. The average labor income of the 722 tenants is \$770, a much higher figure than one might expect. In these same studies it is found that the tenant's income is in almost direct proportion to the capital he has invested. This is most encouraging in that a tenant can rise to the position of a farm owner by using his accumulating savings to operate larger farms until he has sufficient funds with which to buy.

A tenant's labor income is influenced by the kind of lease he has. Under normal conditions, those tenants who rent on a cash basis receive better incomes than those renting on a share basis. Under this system, however, the landlord gives less supervision and expects a lower rate of income on his investment. The tenant takes more chances, and in good years has possibilities of an excellent income, while in poor years he may lose everything.

In table IV is given the distribution of the tenants' income for 588 farms in six states. It is noted that 5.6 per cent of them make over \$2,000 as a labor income. One-fourth of them, or 25 per cent, make between \$100 and \$400. Practically none is making a minus labor income.

TABLE IV.—DISTRIBUTION OF LABOR INCOMES, 588 FARMS OPERATED BY TENANTS

States	Number of farmers	Number making minus labor incomes	Number making incomes between \$1 and \$400	Number making incomes over \$2000
Indiana.....	83	0	26	3
Illinois.....	71	0	11	9
Iowa.....	93	3	28	5
Michigan.....	153	3	41	1
Pennsylvania.....	124	2	31	6
Oregon.....	64	1	10	9
Total.....	588	9	147	33
Per cent of total		1.5	25	5.6

Profits that Landlords Receive

In table V is given the capital, receipts, expenses, and net income for the landlords of the 722 tenant farms given in table III. On the whole, the net returns on investment are low, considering the time and supervision needed. On the other hand, the rise in land values within the last 12 years has given the owners a very substantial profit in it-

TABLE V.—THE AVERAGE CAPITAL, RECEIPTS, EXPENSES AND INCOME OF THE LANDLORDS OF 723 FARMS OPERATED BY TENANTS

State	County	Year	Number of farmers	Average capital	Total receipts	Total expenses	Farm income	Per cent on investment
Indiana.....	{ Clinton	1910	83	18,423	1,002	351	651	3.53
	{ Tipton							
Illinois.....	{ Cass	1910	71	36,479	1,538	213	1,325	3.64
	{ Menard							
Iowa.....	{ Greene	1910	93	20,728	1,014	354	660	3.19
	{ Guthrie							
Michigan.....	Lenawee	1911	153	12,218	856	231	625	5.11
Pennsylvania....	Chester	1911	124	9,785	1,063	349	714	7.30
Oregon.....	{ Marion	1911	64	24,090	873	259	614	2.6
	{ Polk							
*New York.....	Tompkins	1907	135	5,242	573	138	435	8.3
Average for 723 farms				18,138	989	271	718	4.0

self. In regions where land values are stationary, we would not expect landlords to be satisfied with an average income of 4 per cent.

From a careful study of all available data, we are led to believe that the farmer is receiving only nominal wages and interest on his capital. In certain years he makes good profits, but adverse weather conditions or low prices in one year will often wipe out the returns of a period of years. Again, the agricultural districts which have been studied are much above the average of the general country so that the income of the ordinary farmer in all probability would be less than that indicated by the data given in the foregoing tables.

The only available data on this point, and which lead us to the same conclusion, are the paper by Professor W. J. Spillman on "The Farmer's Income," issued in Circular No. 132 of the Bureau of Plant Industry, of the United States Department of Agriculture.

These same farm management studies clearly demonstrate a wide difference in the efficiency of farm organization. Certain principles, such as the organization of the farm enterprises to secure the maximum use of labor and uniform good quality of business, are of the utmost importance. Untold possibilities are within the reach of the ordinary farmer through more efficient organization of his entire farm business without any increase in capital or labor. It is in this direction that the farmer can increase his profits, without raising the price of products sold.